

# State of Arizona Department of Financial Institutions



***“AZDFI”***

***Tuesday, June 5, 2007***

***presented by:***

**Felecia Rotellini, Superintendent**  
**Clyde H. Granderson, Investigator**

*Who We Regulate:*  
**Financial Institutions A.R.S. § 6-101(8)**

- Banks (State Chartered)—**32**
- Credit Unions (State Chartered)—**27**
- Savings & Loan Associations  
(State Chartered) 0
- Independent Trust Companies—**5**
- Consumer Lenders—**23**
- Financial Institution Holding Companies 0
- International Banking Facilities 0

# Financial Enterprises

- Advance Fee Loan Brokers—3
- Collection Agencies—584
- Debt Management Companies—34
- Deferred Presentment Companies—100
- Money Transmitters—62
- Motor Vehicle Dealers—668
- Premium Finance Companies—45
- Pre-need Funeral Trusts—46
- Sales Finance Companies—469

# Mortgage Lending Industry

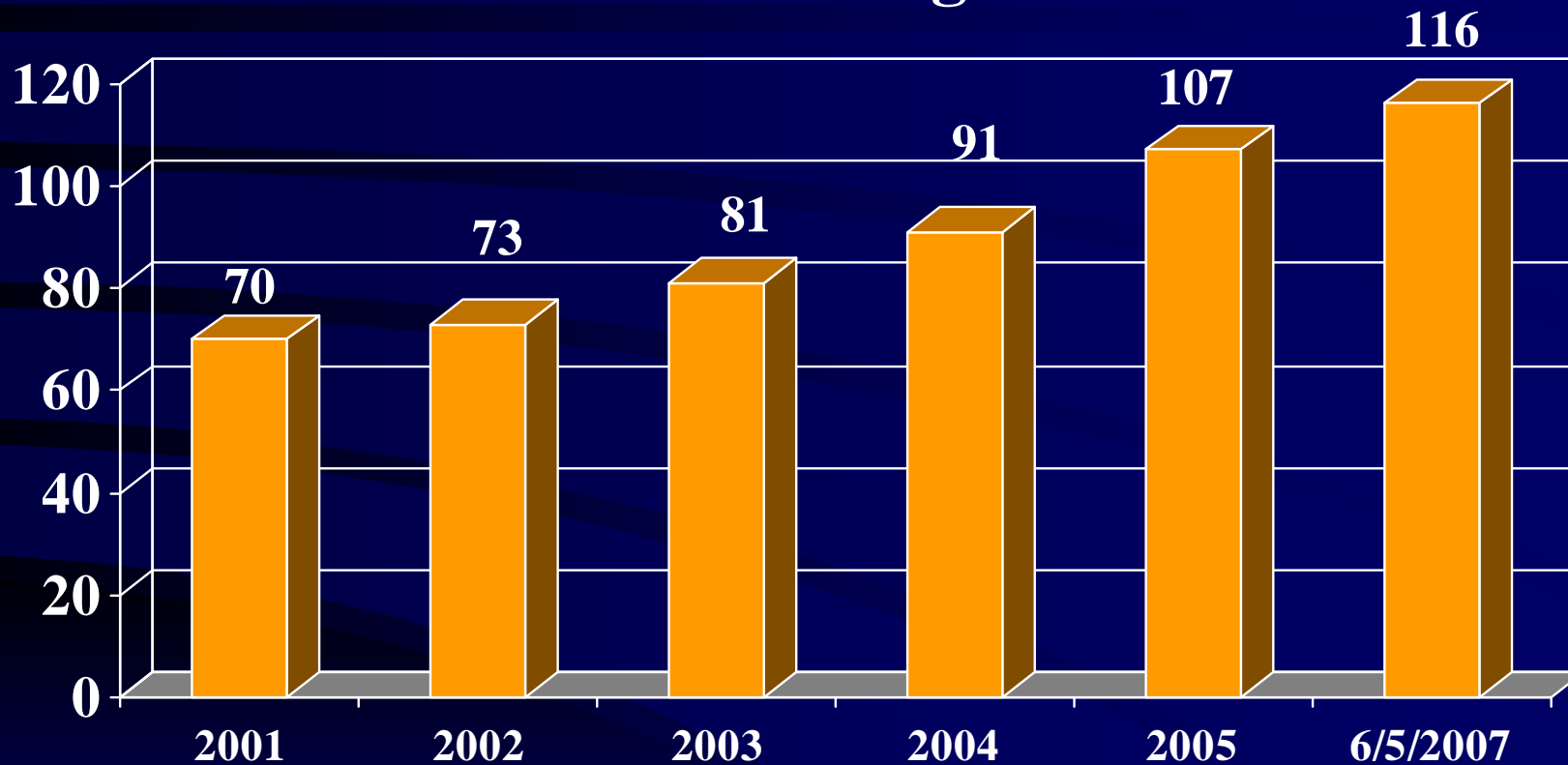
- Commercial Mortgage Bankers—**12**
- Escrow Agents—**116**
- Mortgage Bankers—**601**
- Mortgage Brokers—**1,493**

*All Licenses Current as of June 5, 2007*

# *AZDFI*

## Growth Home Offices

Escrow Agent



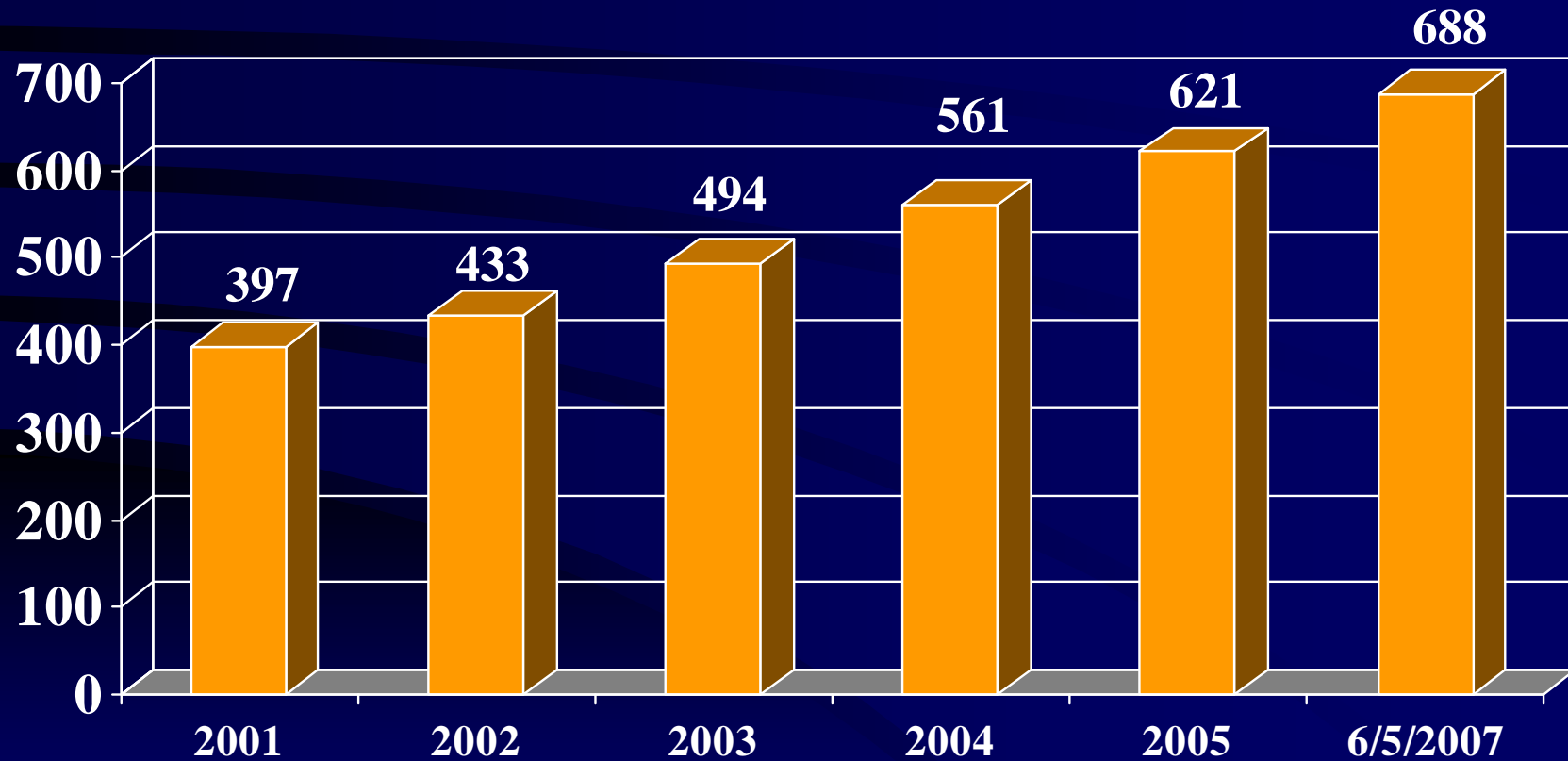
### Yearly Average Increases:

2001-02 4.29%   2002-03 10.69%   2003-04 12.35%   2004-05 17.58%   2005- present 9.35%

**Overall Increase from 2001 to Present: 67.14%**

# *AZDFI* Growth Branch Offices

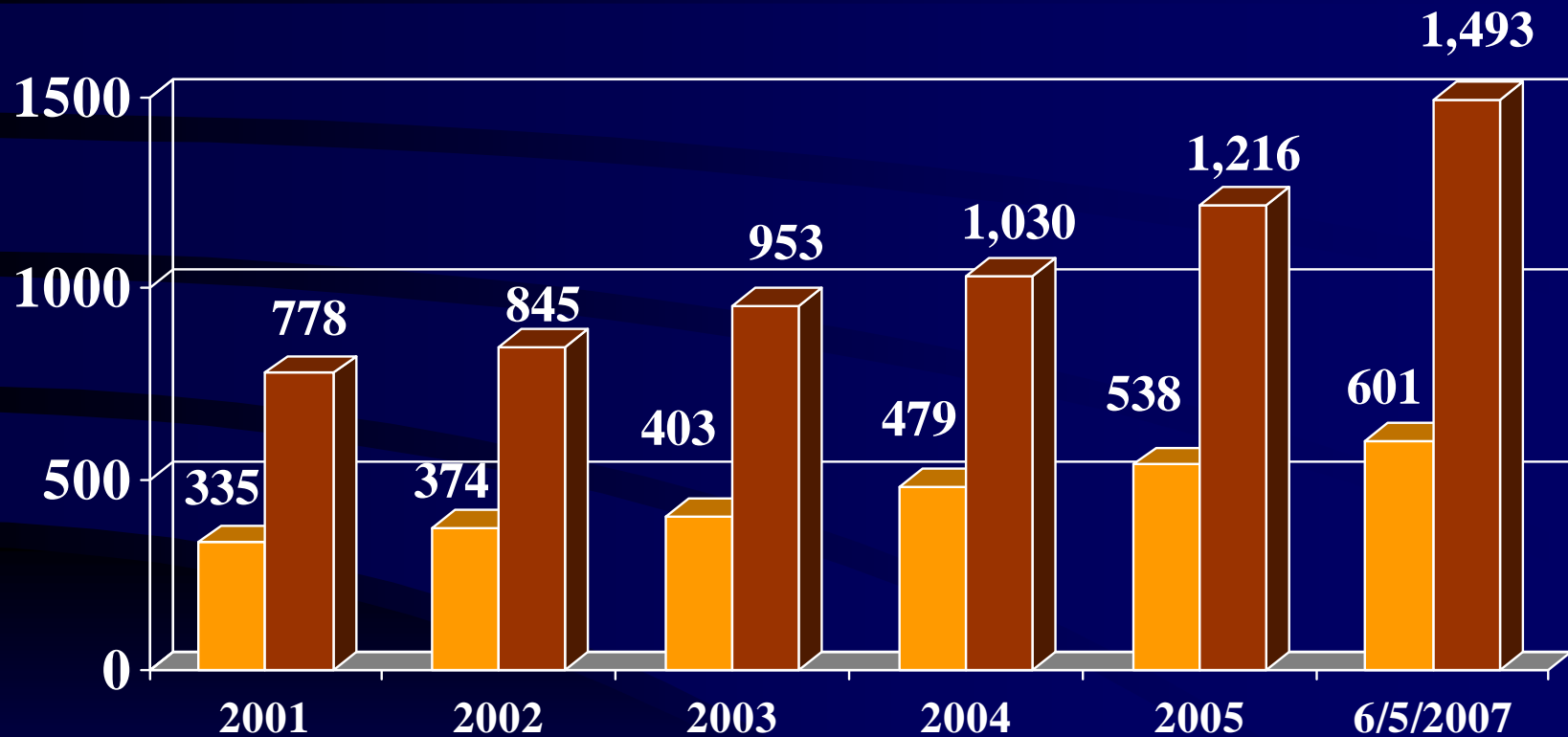
Escrow Agent



*AZDFI*

## Growth Home Offices

■ Mortgage Banker (BK) ■ Mortgage Broker (MB)

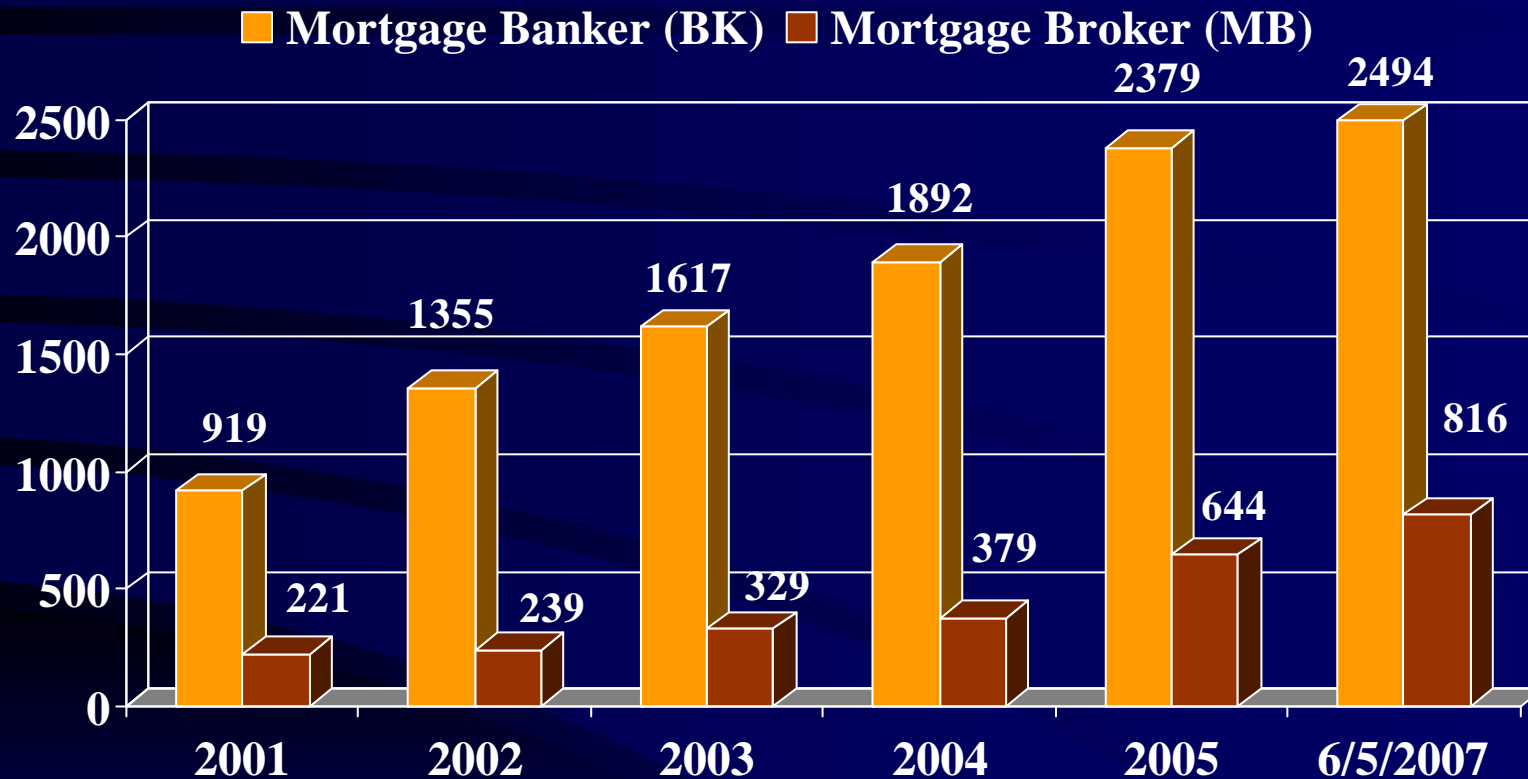


**Yearly Average Increase:**

**Mortgage Bankers = 13.1%**

**Mortgage Brokers = 12.5%**

# *AZDFI Licensing Branches*



**Combined Total Home Offices and Branches for Bankers and Brokers:**

12/31/2001	2,253
6/5/2007	5,404



## **2006 Complaint Totals and Percentages**

<b>Escrow Agents</b>	<b>157</b>	<b>11.85%</b>
<b>Collection Agencies</b>	<b>385</b>	<b>29.06%</b>
<b>Mortgage Banker</b>	<b>357</b>	<b>26.94%</b>
<b>Mortgage Brokers</b>	<b>218</b>	<b>16.45%</b>

**Total      1,117      ~ 85.00%**

**~ 56% of all DFI Complaints involve:  
Escrow Agents, Mortgage Banker, and  
Mortgage Brokers**

# Real Estate Related Fraud

- **Property Flipping**
- **Equity Skimming / Foreclosure Rescue Scams**
- **Theft by Deception**
- **Money Laundering**
- **Cash Back**
- **Lease Back**
- **Shotgun**

**“80% of all reported fraud losses involve collaboration or collusion by industry insiders”—FBI**

# **Real Estate Related Fraud**

## **Property Flipping—**

**Sales contract with straw buyer for more than original listing or value.**

**Property value inflated with fraudulent appraisal.**

**Buyer obtains loan by deception.**

**Seller obtains original asking price.**

**Straw buyer defaults and the lender takes the loss.**

# **Real Estate Related Fraud**

## **Foreclosure Rescue Scam—**

**Phantom help—the owner is “sold” some type of representation or services that never materialize or are worthless.**

**Bailout—the owner surrenders title and the rescuer stalls the foreclosure. The borrower then rents with the promise of buying back, but is set up for failure.**

**Bait and Switch—the owner surrenders (“quitclaims”) property believing that they are completing paperwork designed to help them.**

# **Real Estate Related Fraud**

## **Cash Back—**

**The buyer/borrower inflates the price of the home. The purchase contract shows an inflated price with an addendum indicating that the seller, at the close of escrow, will “credit to the buyer” the inflated amount for no reason or for various home improvements that are not made. The addendum is removed from the underwriting file by the loan officer.**

**The wholesaler, who buys the loan on the secondary market, does not know about the addendum and closes on the over-inflated value, thus, funding the fraud.**

# **Real Estate Related Fraud**

## **Lease Back—**

**A purchase contract provides that the seller will sell the house to the buyer and then lease it back for a period of time. The seller has no intention of living in the house, but rather to give a lump sum back to the buyer at closing.**

**The home value is inflated to cover the lump sum of all lease payments the seller will get at closing.**

# **Real Estate Related Fraud**

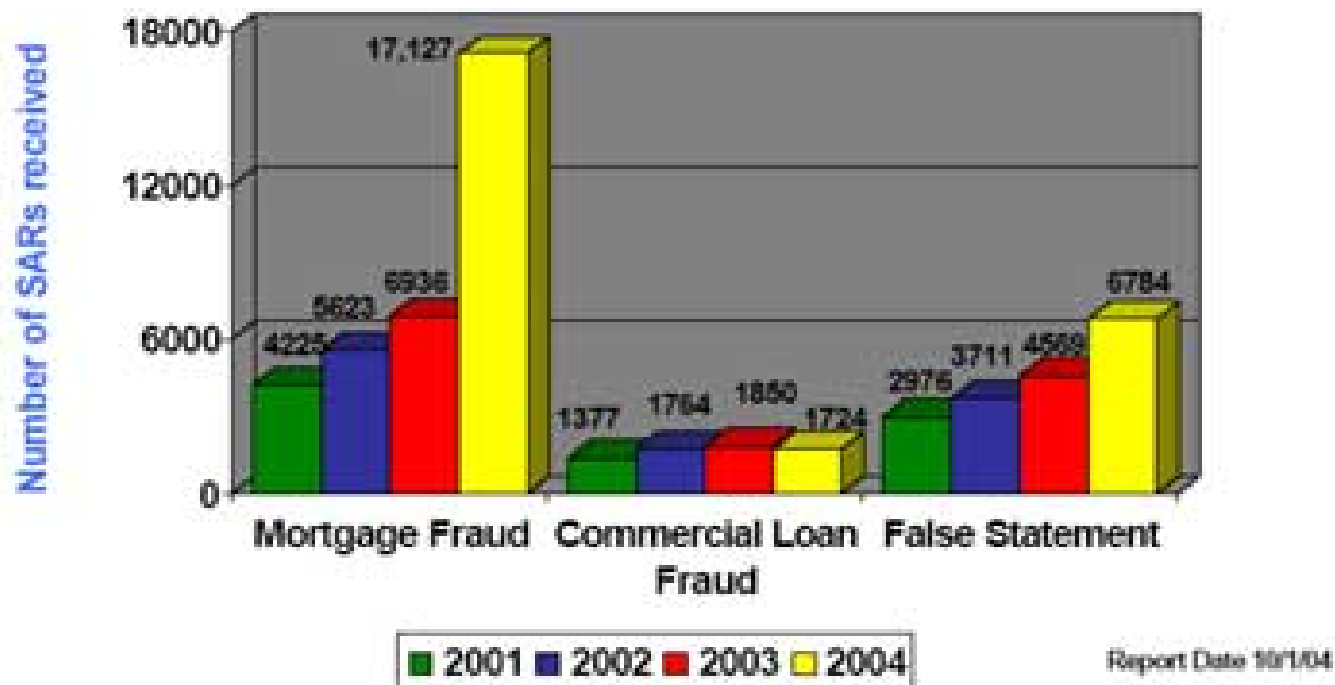
## **Shotgun—**

**Four or more loan packages for the same borrower, on different properties, are submitted to four different lenders at the same time. None of the lenders know about the other loans because all information is omitted from the loan applications.**

**The borrower's credit report will not show any other loans and the underwriter for each loan will qualify the borrower. This approach is coupled with a cash back scheme.**

# Suspicious Activity Reports (“SARS”) F.B.I.

## NUMBER OF VIOLATIONS OF MORTGAGE RELATED FRAUD SARS

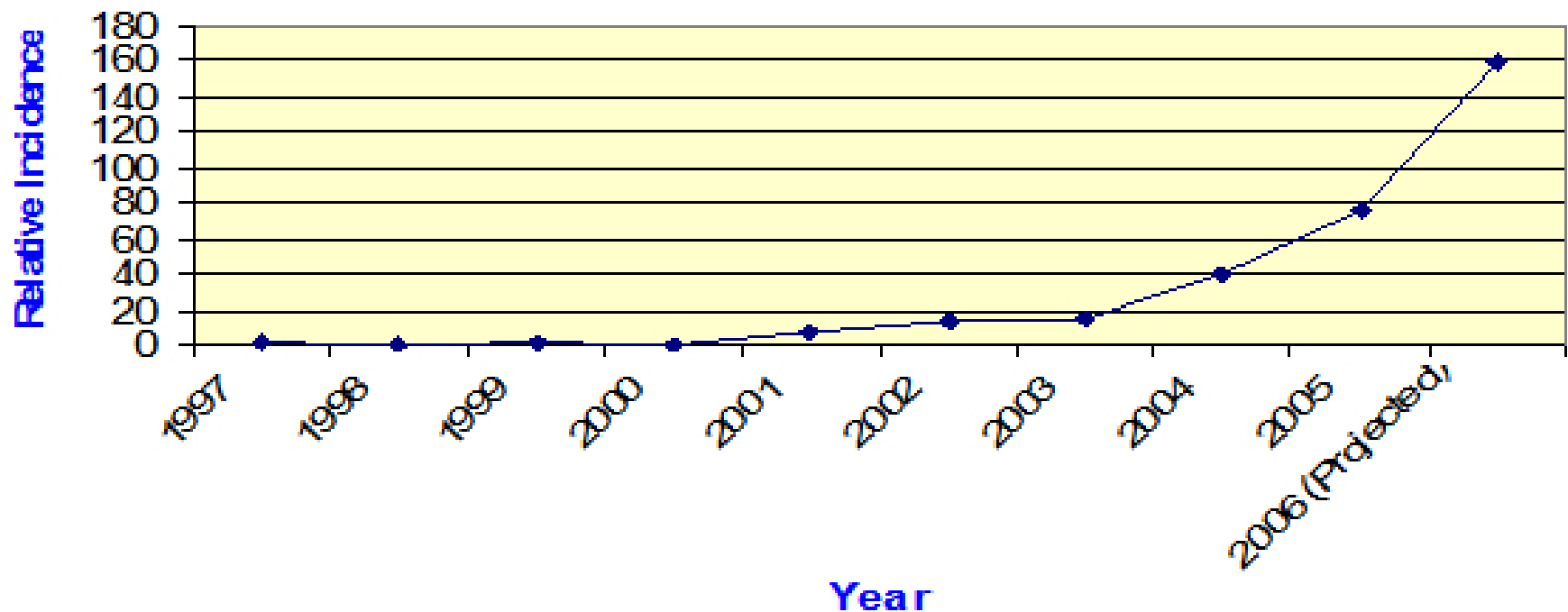


[http://www.fbi.gov/publications/financial/fcs\\_report052005/fcs\\_report052005.htm](http://www.fbi.gov/publications/financial/fcs_report052005/fcs_report052005.htm)



# Suspicious Activity Reports (“SARS”) FinCEN

**Relative Filings by Year of all SAR Types Describing Money Laundering Associated with Commercial Real Estate**



<http://www.fincen.gov/CREassessment.html>

# Mortgage Fraud Task Force

## Objectives:

- To prevent multiple investigations or duplicative efforts involving the same “targets”
- To utilize resources of different agencies
- To combine resources into one centralized area
- To utilize and maximize expertise and skills of all agencies
- To pursue administrative action, removal, and the prosecution of bad actors

# Mortgage Fraud Task Force

- State Agencies
  - Arizona Department of Financial Institutions
  - Arizona Attorney General's Office
  - Arizona Department of Real Estate
  - Arizona Board of Appraisal
  - Arizona Department of Housing
  - Arizona Corporation Commission
    - Securities Division

# Mortgage Fraud Task Force

- County and Law Enforcement Agencies
  - Maricopa County Attorney's Office
  - Phoenix Police Department
  - Mesa Police Department
  - Scottsdale Police Department
  - U.S. Attorney General
  - Federal Law Enforcement

# Mortgage Fraud Task Force

- **Federal Agencies**

- U.S. Attorney's Office
- Federal Bureau of Investigation
- Internal Revenue Service
  - Criminal Investigation Division
- U.S. Department of Housing and Urban Development (HUD)
  - Office of Inspector General
- Department of Homeland Security
  - Immigration and Customs Enforcement - ICE

# Cash Back Scheme

List Price \$1,450,000

Sold for \$1,625,000

[illegible]

#	Mis #	Field Name	Date Stamp	Old Value	New Value
1	000001	UseStatus	1/26/2006 22:00:12	incom	act
2	000001	MisNum	1/26/2006 22:00:12		
3	000001	ListPrice	3/15/2008 13:06:33	1350000	1395000
4	000001	ListPrice	5/04/2008 05:35:04	1451000	1375600
5	000001	ListPrice	5/12/2008 14:00:06	1375000	1335000
6	000001	ListPrice	6/27/2009 17:18:33	1335000	1025000
7	000001	ListStatus	7/10/2009 15:24:47	act	pend
8	000001	ListStatus	8/07/2009 11:45:44	pend	cancel

- 1) Price was raised 3 days after contract date to accommodate agreement.....
- 2) Original list price was \$1,450,000...1/26/06
- 3) Reduced to \$1,395,000...3/15/06
- 4) Reduced to \$1,375,000...5/04/06
- 5) Reduced to \$1,333,500...6/15/06
- 6) Contract date 6/24/06
- 7) Price change to \$1,625,000...6/27/06

# Cash Kick-Back Schemes

## Conspirators

- Willing Seller ( Naïve, Desperate or a Co-conspirator )
- Loan Officer ( Greedy and Dishonest )
- Appraiser ( Greedy and Unprincipled )
- Investor – Buyer ( Prison Candidate)
- WHO IS MISSING FROM THIS LIST???

[illegible]



# \$165,000 Kickback

[illegible][illegible]

P. 06

**RESIDENTIAL RESALE REAL ESTATE  
PURCHASE CONTRACT**

The printed portion of this contract has been approved by the Arizona Association of Realtors ("AAR"). This is intended to be a binding contract. Modifications or amendments to this contract are subject to approval by both parties and must be in writing. It is recommended that all parties consult their respective attorneys before signing this contract.

PAGE  
**R**  
REALTOR  
AZ  
ASSOCIATION OF REALTORS

**1. PROPERTY**

1a. 1. BUYER: \_\_\_\_\_

2. SELLER: \_\_\_\_\_

3. Buyer agrees to buy and Seller agrees to sell the real property with all improvements, fixtures, and appurtenances thereto or incidental thereto, plus the personal property described herein (collectively the "Premises").

4. Previous Address: \_\_\_\_\_

5. City: \_\_\_\_\_ County: Maricopa Assessor's #: \_\_\_\_\_

7. Legal Description: Parcel #1 N/A AZ Zip Code: \_\_\_\_\_

8. \$ 245,000.00 Full Purchase Price, paid as outlined below

9. \$ 500.00 Earnest money to be delivered to title

10. \$ \_\_\_\_\_

11. \$ \_\_\_\_\_

12. \$ \_\_\_\_\_

13. Close of Escrow: Close of Escrow ("COE") shall occur at which the deed is recorded at the appropriate county recorder's office.

14. Buyer and Seller shall comply with all terms and conditions of this Contract, execute and deliver to Escrow Company all closing documents, and perform all acts and things necessary in sufficient time to allow COE to occur on February 15, 2007. ("COE Date") if Escrow Company or recorder's office is closed on

17. COE Date, COE shall occur on the next day that both are open for business.

18. Buyer shall deliver to Escrow Company a cashier's check, wire funds or other immediately available funds to pay any down payment, additional deposits or Buyer's closing costs, and instruct the lender, if applicable, to deliver immediately available funds to Escrow Company, in a sufficient amount and in sufficient time to allow COE to occur on COE Date.

19. Possession and Personal Property shall deliver possession, occupancy, account to keys and/or means to operate all locks, mailboxes, security systems/alarms, and all common area facilities to Buyer at COE or [ ]

20. Seller(s) recommend that the parties select appropriate counsel from insurance, legal, tax, and accounting professionals regarding the issue of pre-possession or post-possession of the Premises.

21. Addendum Incorporated: ☐ Assumption and Carryback ☐ Buyer Contingency ☐ Automatic Water Well ☐ HUD forms

22. (H.O.A.) ☒ Lease-Signed Party Disclosure ☐ Additional Clause ☐ Onsite Wastewater Treatment Facility

23. Other: \_\_\_\_\_

24. Fixtures and Personal Property: Buyer agrees that all existing fixtures on the Premises, and any existing personal property specified herein, shall be included in this sale including the following:

- free-standing refrigerator
- built-in appliances
  - \* dish-mounted cooktop
  - \* detached fireplace unit
  - \* window and door screens, wall screens
  - \* storm windows and doors
  - \* shutters and awnings
  - \* garage door opener and remote
  - \* attached tripartite multi-trailers in carport
- light fixtures
- ceiling fans
- drapes and other window coverings
- exterior floor coverings
- outdoor landscaping, fountain, and flog
- water-conserving systems
- cooler, systems
- panel, wood-burning or gas-log stoves
- lawn
- trampoline
- storage sheds

25. \_\_\_\_\_

BUYER SELLER

ARIZONA ASSOCIATION OF REALTORS Form RSC 605 Page 1 of 6

Approved by the Arizona Association of Realtors, Inc. (Approved)

Printed with "eSignature" by AZ Real Estate, LLC 1025 Phoenix Ave., Suite 200, Tempe, Arizona 85283

7. REMEDIES

7a. 271. Cure Period: A party shall have an opportunity to cure a potential breach of this Contract. If a party fails to comply with an  
272. provision of this Contract, the other party shall deliver a notice to the non-complying party specifying the non-compliance.  
273. The non-compliance is not cured within three (3) days after delivery of such notice ("Cure Period"), the failure to comply shall  
274. become a breach of Contract.

7b. 275. Breach: In the event of a breach of Contract, the non-breaching party may cancel this Contract and/or proceed against the  
276. breaching party in any claim or remedy that the non-breaching party may have in law or equity, subject to the Arbitration  
277. Clause. Rescission obligations set forth herein. In the case of the Seller, because it would be difficult to fix actual damages  
278. in the event of Buyer's breach, the Earnest Money may be deemed a reasonable estimate of damages and Seller may, at  
279. Seller's option, accept the Earnest Money as Seller's sole right to damages; and, in the event of Buyer's breach arising from  
280. Buyer's failure to deliver the notice required by Section 2a, or Buyer's inability to obtain Seller's approval due to the waiver of  
281. the appraisal contingency pursuant to Section 2c, Seller shall exercise this option and accept the Earnest Money as Seller's  
282. sole right to damages. An unresolved contingency is not a breach of Contract.

7c. 283. Alternative Dispute Resolution ("ADR"): Buyer and Seller agree to mediate any dispute or claim arising out of or relating  
284. to this Contract in accordance with the REALTOR® Dispute Resolution System; or, if otherwise agreed, All mediation costs  
285. shall be paid equally by the parties. In the event that mediation fails to resolve all disputes or claims, All mediation costs  
286. disputes or claims shall be submitted for binding arbitration. In such event, the parties shall agree upon an arbitrator and  
287. cooperate in the scheduling of an arbitration hearing. If the parties are unable to agree on an arbitrator, the dispute shall be  
288. submitted to the American Arbitration Association ("AAA") in accordance with the AAA Arbitration Rules for the Real Estate  
289. Industry. The decision of the arbitrator shall be final and nonappealable. Judgment on the award rendered by the Real Estate  
290. may be entered in any court of competent jurisdiction. Notwithstanding the foregoing, either party may opt out of binding  
291. arbitration within thirty (30) days after the conclusion of the mediation sentence by notice to the other and in such event  
292. either party shall have the right to resort to court action.

7d. 293. Exclusions from ADR: The following matters are excluded from the requirement for ADR hereunder: (i) any action brought  
294. in the Small Claims Division of an Arizona Justice Court (up to \$2,500) or any other action or proceeding to enforce a deed  
295. removed from the small claims division; (ii) judicial or nonjudicial foreclosure or other action or proceeding to enforce a deed  
296. of trust, mortgage, or agreement for sale; (iii) an unlawful entry or dangerous action; (iv) the filing of a notice of action to  
297. mechanic's lien, or (v) any matter that is within the jurisdiction of a probate court. Further, the filing of a notice of action to  
298. enforce the recording of a notice of pending action ("notice"), or order of attachment, receivership, injunction, or other  
299. provisional remedy, shall not constitute a waiver of the obligation to submit the claim to ADR, nor shall such action  
300. constitute a breach of the duty to mediate or arbitrate.

7e. 301. Attorney Fees and Costs: The prevailing party in any dispute or claim between Buyer and Seller arising out of or relating  
302. to this Contract shall be awarded their reasonable attorney fees and costs. Costs shall include, without limitation, attorney  
303. fees, expert witness fees, fees paid to investigators, and arbitration costs.

8. ADDITIONAL TERMS AND CONDITIONS

304. Seller to contribute 41 towards buyers closing costs/proposed items

305.

306. Seller to participate in the new alliance program at a cost of \$16,000

307.

308.

309.

310.

311.

312.

313.

314.

315.

316.

ARIZONA ASSOCIATION OF REALTORS® Form RPS 605

Printed with ZipForm® by RE FormPro, LLC 19825 Phoenix Hill Road, Green Township, Michigan 48036

Page 7 of 9

100% GUESTBOOK

# Contact Information

**If you have a complaint, visit [www.azdfi.gov](http://www.azdfi.gov)  
to fill out a complaint form.**

**Clyde H. Granderson, Investigator**

**Henry Soza, Investigator**

**John Pettet, Investigator**

**J.P. Ciudad, Investigator**

**Eric Boldan, Special Assistant**

E-mail:            [cgranderson@azdfi.gov](mailto:cgranderson@azdfi.gov)  
                      [hsoza@azdfi.gov](mailto:hsoza@azdfi.gov)  
                      [jpettet@azdfi.gov](mailto:jpettet@azdfi.gov)  
                      [jciudad@azdfi.gov](mailto:jciudad@azdfi.gov)  
                      [eboldan@azfi.gov](mailto:eboldan@azfi.gov)